NEWS RELEASE

CALIFORNIA STATE TREASURER PHIL ANGELIDES

MEDIA ADVISORY | **Contact: Mitchel Benson**
October 24, 2003 | **(916) 653-4052**

SACRAMENTO, CA – State Treasurer Phil Angelides today sent a letter to Senate Minority Leader Jim Brulte, correcting the record regarding Brulte's recent comments to the press that mischaracterize the Treasurer's position on the Fiscal Recovery Bonds (FRBs) that Brulte proposed to help balance the 2003-04 Budget.

The Treasurer has long expressed his opposition to the bonds and, this week, briefed Governor-elect Arnold Schwarzenegger about the recent developments concerning legal challenges to the FRBs and the Pension Obligation Bonds (POBs) that are also part of the 2003-04 Budget. In his letter to Brulte, the Treasurer said he "will continue to be truthful about the reasonable risks to the State's fiscal integrity."

Please find attached a copy of the letter, along with attachments that were provided to Brulte. If you have any further questions or want to discuss the letter further with the Treasurer, please contact Mitchel Benson at (916) 653-4052.

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PHILIP ANGELIDES
Treasurer
State of California

October 24, 2003

The Honorable Jim Brulte
Senate Minority Leader
State Capitol
Sacramento, CA 95814

Dear ~~Senator Brulte:~~ Jim

I was surprised and disturbed by your comments in the *Los Angeles Times* today and in your interview with CNN's Judy Woodruff on Thursday, in which you mischaracterized my position regarding the Fiscal Recovery Bonds (FRBs) that you proposed to help balance the 2003-04 state budget.

"If the Treasurer had doubts…he should have voiced them during the budget process," you are quoted as saying in this morning's *Los Angeles Times* ("State Budget Briefing Is Grim").

Unfortunately, your recollection could not be further from the truth. Let me refresh your memory.

In a June 9, 2003 letter (attached) that I sent to you and Assemblyman John Campbell, I wrote: "I oppose your budget proposals because I do not believe that the deficit financing that you have outlined is feasible or prudent and because billions of dollars in proposed education cuts over the coming years are unwise, given the economic and social challenges we face in the years and decades ahead."

In addition, there have been numerous news accounts of my concerns about the deficit bonds that were published or broadcast during the budget deliberation process, both before and in response to the June 9 letter.

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Apart from your mischaracterization of the facts, you seem to miss the point of the concerns I have raised regarding the legal challenges to the bonds and the risks that such challenges pose to the State's budget and cash flow needs.

My advice to Governor-elect Schwarzenegger at our meeting on Thursday, and in an earlier telephone conversation and letter (of which you received a copy), is far from "alarmist," as you indicated to the *Los Angeles Times*. I simply brought him up to date on the legal challenges to the FRBs and the Pension Obligation Bonds (POBs), and I urged him to develop a contingency plan to balance the 2003-04 Budget, should those legal challenges succeed or should they not be resolved in a timely manner. In the absence of a favorable or timely resolution of these lawsuits, the State's projected deficit could grow from $8 billion to more than $20 billion, and the State would need to find alternative means to pay off $14 billion in short-term notes that come due in June.

The facts of these lawsuits are a secret to no one and have been well known for some time. Please find attached a fact sheet prepared by my office – and recently distributed to the news media and investors – in case you are unclear on or unaware of the many key, public, and recent developments concerning the entire bond package.

I want to be clear: I consider my comments to the Governor-elect to be prudent, cautious advice, and not alarmist warnings. I will continue to be truthful about reasonable risks to the State's fiscal integrity. And I would be remiss in my duties if I did not point out that, if the existing budget plan cannot be executed, we need a "Plan B" to meet the State's substantial cash and budgetary needs.

In fact, I believe yours is a dangerous tack to take, to attempt to sweep under the rug such realistic and cautionary information. While it might serve your own political interests, it does not serve the interests of the people of California or help balance the budget to assess blame, to conveniently forget my correspondence to you, to ignore publicly known facts, or to minimize my fair assessment of the State's fiscal risks.

I have presented the facts in black and white so that, in a bipartisan manner, we can tackle the financial challenges facing our State and our taxpayers. As a legislative leader, I would think that you would want to be prepared for all reasonable contingencies. Given my 15 years of private sector financial experience and my role as Treasurer, I have provided my best advice to the Governor-elect – and to you – at this time.

When I met with reporters on August 22 to outline the details of the borrowing required by the 2003-04 budget, which was authorized on a bipartisan basis with your support, I said that the borrowing would be "a formidable task for my office to undertake," but I also made it clear that, "We are going to make the case for California."

In closing, let me say that I believe it is time to come together, based on the factual circumstances we face to solve our budget problems. I am willing to work together with you, and I look forward to doing so. Please feel free to give me a call if you would like to discuss this matter or if you have any further questions.

Sincerely,

Phil Angelides
State Treasurer

Attachments

PHILIP ANGELIDES
Treasurer
State of California

June 9, 2003

The Honorable Jim Brulte
Senate Minority Leader

The Honorable John Campbell
Vice Chairman, Assembly Budget Committee

As the State's chief investment officer, I am deeply concerned by your recent, politically charged statements and actions and their negative impact on the State's fiscal condition, the financing of critical services and investments, and California's economy.

I am writing this letter to ask you to repair the damage that our State will suffer in the financial marketplace due to these actions, and to commit yourselves to resolving our budget challenges in a bi-partisan manner.

As you are well aware, this office is in constant contact with the wide range of participants in the financial community, including investment banks, lenders, investors, credit analysts, and credit rating agencies. In the course of our interactions with these participants, they have expressed rapidly escalating concerns about the State's ability to resolve its fiscal challenges in the face of deep policy differences, particularly given the two-thirds vote required for enactment of a budget.

But your actions and comments of recent days have crossed the line. They send a dangerous signal – that rancor will trump good faith efforts to resolve policy disagreements, triggering a budget stalemate, a cash flow crisis, and the crippling of critical services from education to health care to public safety.

Specifically, I am asking that you immediately issue clear, public statements – conveyed to the financial markets - indicating that 1) you are committed to making every good faith effort to timely enact a state budget; and 2) you are willing to consider, in good faith, modifying your positions on that budget, as you clearly expect the majority to do, to accomplish that objective.

The consequences of putting politics above policy at this critical juncture will be dire. First of all, notwithstanding the underlying strength of California's economy, our State's credit rating has been downgraded, due in large part to concerns among investors and credit rating agencies that California's budget writing process is ensnarled in a web of political intransigence and structural obstacles. A budget stalemate could well lead to further downgrades, at significant cost to taxpayers. A lowering of our rating from A to A- will result in approximately $400 million in additional borrowing costs on authorized but unissued bonds. A lowering to BBB+ will cost approximately $850 million. This erosion of our credit rating would take us down a dangerous path – one that could jeopardize our ability to access the capital markets for cash flow and critical investments.

Secondly, as I indicated in my letter of May 30, 2003, I do not believe that we can place additional general obligation or lease-revenue bond measures before the voters until a balanced budget for fiscal year 2003-04 is in place and there is a viable plan to fix the structural imbalances in the budget. Clearly, we need to put our fiscal house in order so that we can once again move forward on the vital investments in infrastructure – from schools to parks to transit – that are essential to our State's long-term economic progress.

Finally, and perhaps most importantly, a fiscal meltdown will do lasting damage to California's economy and its reputation in the financial markets. A state government in turmoil, schools uncertain of their budgets and resources, critical infrastructure projects on hold – all of these send the wrong message about California to investors and businesses across this nation and the world.

There is no reason for us to reach a point of crisis. California, in many respects, stands today as the richest State in the wealthiest nation on earth. Ours is the fifth largest economy in the world. Our gross state product last year was $1.4 trillion. We are blessed with intellectual and entrepreneurial talent unmatched on the globe. We face not so much an economic and fiscal crisis, as a political crisis.

Let me be clear: I recognize that each of us has deeply held beliefs. As you know, I have advocated forcefully for a budget that funds education in a manner that is worthy of our future. I have traveled the State to make the case against deep cuts in education because I believe that we must make the investment necessary to train the best workforce in the world to remain competitive in the global economy. I oppose your budget proposals because I do not believe that the deficit financing that you have outlined is feasible or prudent and because the billions of dollars in proposed education cuts over the coming years are unwise, given the economic and social challenges we face in the years and decades ahead.

But none of us can afford to bring the State to its knees. To avoid hurting the State we all love, we must now move to suture up our fiscal wounds so that we can face the truly important work ahead of building sustained strength for our economy and society.

I hope you will act quickly to reverse the damaging course upon which you embarked in recent days I look forward to working with you.

Sincerely,

Phil Angelides
State Treasurer

Status of Bonds and Notes – Originally Totaling $18 Billion – Required by the 2003-04 Budget Adopted by the Legislature

Revenue Anticipation Notes (RANs)
Revenue Anticipation Notes are regularly issued by the State to assist in meeting cash flow needs arising from timing differences between when revenues flow into the Treasury and when expenses need to be paid. RANs are repaid within the same fiscal year in which they are borrowed. The State has issued RANs for 10 of the last 11 years. The pricing of the latest RANs is scheduled for October 22.

Tobacco Securitization Bonds
Tobacco Securitization Bonds are backed by future proceeds of the 1998 Master Settlement Agreement of the tobacco lawsuit brought by the Attorneys General of 46 states. Under the terms of the 2003-04 budget package, the State may provide annual appropriations from the State General Fund as a "back stop" to enhance the security for repayment of the bonds. The sale was completed on September 30, with $2.3 billion in net proceeds going to the State.

Pension Obligation Bonds (POBs)
The Pension Obligation Bonds, first proposed by Gov. Davis in January, were subsequently authorized by bi-partisan legislation adopted in May. The POBs were designed to provide funds to pay the State's quarterly contributions to CalPERS for the 2003-04 fiscal year. The Howard Jarvis Taxpayers Association on July 15 challenged the bonds in court. On September 23, the Sacramento Superior Court denied approval of the bonds, and the court issued a formal judgment on October 2. (As a consequence, the State has already made the first of the quarterly payments, due in October, without benefit of bond proceeds. The State cannot be reimbursed for such payments with future bond proceeds.) The POB Committee, on whose behalf the Treasurer issues the bonds, filed a notice of appeal with the court on October 6. The POB Committee is comprised of seven members, five of whom will be appointees of Gov.-elect Schwarzenegger.

Fiscal Recovery Bonds ("Deficit Reduction Bonds")
Fiscal Recovery Bonds, first proposed in concept by the Republican legislative leadership, were included in the budget adopted by the Legislature and signed by Gov. Davis to fill the budget gap that had accumulated by June 30, 2003. They will be repaid solely from future annual appropriations of a temporary one-half cent state sales tax. The Pacific Legal Foundation, on behalf of the Fullerton Association of Concerned Taxpayers, filed a legal challenge on September 24. The statute authorizing the FRBs becomes effective on October 30. Soon after, the FRB Committee will schedule its first meeting, during which it will consider authorizing the bond sale and consider its options with respect to the Pacific Legal Foundation litigation. The Treasurer's Office will be charged with issuing bonds on behalf of the FRB Committee. The FRB Committee is comprised of seven members, five of whom will be appointees of Gov.-elect Schwarzenegger.